

NUMAC



NUMAC OIL & GAS LTD.
1973 ANNUAL REPORT

NUMAC

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Numac Oil & Gas Ltd. was incorporated under the laws of the Province of Alberta on March 16, 1963.
The annual meeting of shareholders will be held at 9:00 a.m., June 26, 1974, in the Hotel Macdonald, Edmonton, Alberta.

BOARD OF DIRECTORS

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Chicago, Illinois

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Edmonton, Alberta

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General Counsel, Pitcairn Incorporated
Jenkintown, Penn.

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London, Ontario

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Lands and Contracts

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Vice-President, Exploration

ALEXANDER N. MacIVER,
Assistant Secretary

Head Office
9945 - 108 Street, Petroleum Plaza, Edmonton, Alberta

Registrars and Transfer Agents
The Royal Trust Company, Edmonton, Montreal, Toronto
The Canadian Bank of Commerce Trust Company, New York

Auditors
Winspear Higgins Stevenson & Co., Edmonton, Alberta

Solicitors
Jackson, Arlette and MacIver, Edmonton, Alberta

Listing
Toronto Stock Exchange
American Stock Exchange

HIGHLIGHTS

	1973	1972
Gross Income, net after royalties	\$ 4,582,396	\$ 4,050,644
Cash Flow from Operations	3,361,734	3,008,755
Working Capital	5,513,944	6,209,630
Net Income before Extraordinary Income	2,341,240	2,258,988
Net Income	2,341,240	2,306,057
Capital Expenditures	4,343,675	3,078,816
Long-Term Debt	375,000	Nil
*Per Share:		
Cash flow from operations	.79	.72
Net income before extraordinary income	.55	.54
Net income	.55	.55

* Based upon weighted average number of shares outstanding.

NUMAC IMPROVES POTENTIAL RETURN FROM MACKENZIE DELTA

MACKENZIE DELTA DRILLING 1974

ESTIMATED 7.5 BILLION BARRELS IN PLACE UNDERLYING NUMAC'S ATHABASCA

OIL SANDS PROPERTY

NORTH SEA EXPLORATION

CELTIC SEA EXPLORATION

CRUDE OIL PRODUCTION TO INCREASE

MACKENZIE DELTA NATURAL GAS PIPELINE

PRESIDENT'S REPORT TO THE SHAREHOLDERS

Your Company achieved another year of growth and progress in 1973, with gross income up to \$4,582,396 versus \$4,050,644 in 1972, cash flow of \$3,361,734 as compared with \$3,008,755 the previous year, while net income of \$2,341,240 before extraordinary items, was also an improvement compared with \$2,258,988 in 1972. Working capital was strong at \$5,513,944.

It became obvious to Company management early in 1973 that wellhead prices of gas and oil were going to increase substantially, therefore gas and oil leases, permits and reservations in Alberta and British Columbia were steadily increased during the year. Consequently, 1974 will be the busiest exploration year in number of exploratory wells and footage drilled since incorporation of the Company.

Due to the so-called energy crisis and the inevitable improvement in the price of oil, Numac's 117,120 acres of Athabasca oil sands reservations, south of Fort McMurray, take on much greater significance in terms of a valuable asset having great potential income for your Company. Seven exploratory wells were drilled on this property in 1973 establishing the presence of in excess of 7 billion barrels of oil in place. Eight additional wells will be drilled before April 30, 1974. This group of reservations, owned 100% by Numac, is expected to be developed under an in-situ type recovery process. Recognizing the need and importance of the early development of these deposits, the Alberta Government recently announced a \$100 Million fund which will be available to assist in technology for various in-situ type oil recovery methods.

Sunoco E & P Limited (a Canadian subsidiary of Sun Oil Company) recently signed an exploratory and development agreement with Bow Valley Industries Ltd. and Arctic Coast Petroleum Ltd., after obtaining Numac's approval, on our eight Mackenzie Delta permits. This is a significant development for Numac since three wells are committed to be drilled, two of which will be commenced on separate permits during the summer of 1974. In addition to Numac's 20% net carried interest in the 270,000 acres of permits, other important benefits were gained by Numac as a result of the renegotiations.

Numac has significant holdings in the Mackenzie Delta area and management is confident a natural gas pipeline will be built from the North Slope of Alaska and the Mac-

kenzie Delta through Alberta to the United States and Eastern Canadian markets. In support of the building of this line, Numac became a member of Canadian Arctic Gas Study Limited in November of 1973, which may lead to an equity interest in such a Mackenzie Valley line when it is built. Applications for such a pipeline permit will probably be filed by approximately March 31st in Ottawa, Washington, Yukon and Alaska.

Several wells are planned in the general area of Block 103/27 in the Celtic Sea where Numac has an 8-1/6% interest. In addition, Block 9/4 in the British Sector of the North Sea (Numac's interest 11-1/4%) looks increasingly attractive geologically and an exploratory well might be commenced in 1975 provided participating companies are in agreement.

A larger percentage increase in net income was contemplated for 1973 but five development wells planned to be drilled in the early summer could not be drilled due to extreme rainfall making for impossible road conditions. These wells were successfully completed after freeze-up during December, 1973 and January, 1974. Similarly, because of a delay in freeze-up of muskeg areas, our oilfield construction division was delayed in moving into some work areas during November and December, which also contributed to a smaller than expected profit. In addition, some companies reduced exploratory plans due to uncertainty regarding royalties and oil prices.

In October of 1973, the Federal Government imposed a 40¢ per barrel export tax on oil exported to the United States. Since that time, commencing February 1st, this tax has been increased to \$6.40 per barrel. To further complicate industry problems, the wellhead price of Alberta oil has a temporary freeze at approximately \$4.00 per barrel. In addition, the Western producing provinces have been in the process of carving out larger royalties or other means of sharing oil and gas production from the producing industry.

There is a good probability, however, that an increase in the price of oil will accrue to the producer commencing the first or second quarter of 1974 and the oil price freeze may be lifted. Also on the positive side, the Alberta Government recently announced drilling incentives for some exploratory wells and reduced royalties on new gas discoveries. Certainly the Federal and Provincial Governments have to

decide if they want to encourage new oil and gas discoveries, and if they want the industry to generate enough money to cope with the much higher exploratory costs required to find the scarcer but much needed oil and gas fields.

Numac holds 615,000 shares of Precambrian Shield Resources Limited, being 17.12% of the outstanding common stock of that company. Precambrian Shield holds mining properties in the Yukon and Northwest Territories including a good gold prospect (the W.T. Property), which was drilled and indicated commercial possibilities and which will be tested by means of a 1,000 foot decline tunnel commencing in April. Numac, in addition to the stock interest, will participate in the cost of the underground work and thereby will also earn a 25% interest in the property.

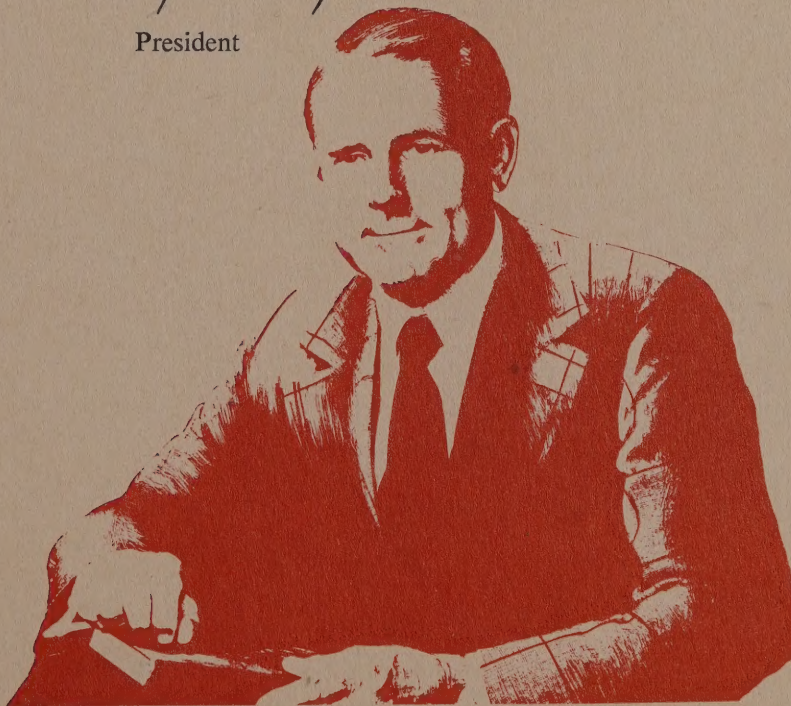
The Directors again wish to acknowledge and extend their sincere appreciation for the contributions made by the Company employees whose dedication and industry are directly attributable to the success of the Company.

On behalf of the Board of Directors,

W. S. Mc Gregor

President

March 5, 1974



EXPLORATORY AREAS IN CANADA



BUSINESS OF THE COMPANY

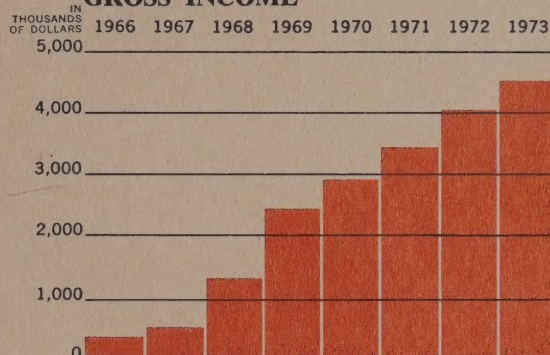
Numac is primarily engaged in the exploration, development, and production of oil, natural gas and other related hydrocarbons in the conventional Western Canadian sedimentary basin, the Mackenzie Delta, the Athabasca Oil Sands, the British Sector of the North Sea and other geologically attractive foreign countries where the political climate is believed to be stable.

The Company has been active, to a limited extent, in the exploration for various other minerals including uranium, gold, silver, copper, zinc and lead.

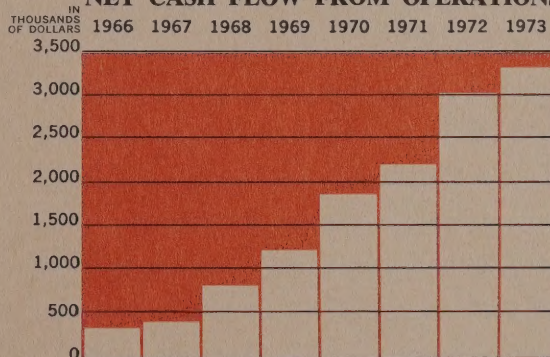
Through the facilities of the oilfield construction division, the Company engages in road building and other construction activities in Western Canada and the Northwest Territories.

Numac participates in other ventures including real estate development in Northern Alberta and participation in the Canadian Arctic Gas Study Group which is proposing to construct a natural gas pipeline at a cost of in excess of \$5 billion from the Mackenzie Delta and Prudhoe Bay to southern markets.

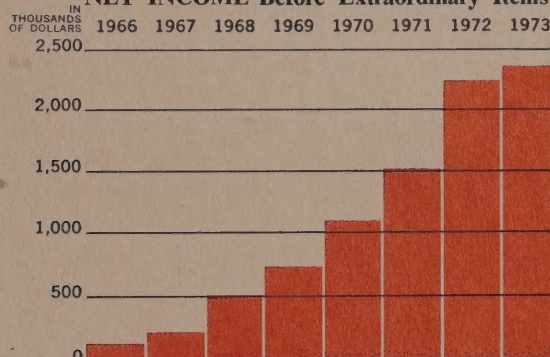
GROSS INCOME



NET CASH FLOW FROM OPERATIONS



NET INCOME Before Extraordinary Items



WESTERN CANADIAN SEDIMENTARY BASIN

Numac participated in the drilling of twenty wells during 1973, of which fifteen were exploratory and five were development. Ten of the exploratory wells were successful while five were abandoned. Four of the development wells were completed as oilwells and one was dry.

The **Red Earth-Utikuma** area (see map) in north-central Alberta has continued to be a prolific oil producing region for the Company. Unfortunately, during 1973 the area encountered an unusually heavy rainfall which resulted in a postponement of drilling, a delay in placing wells on production and having a number of wells shut-in for unexpected periods of time. However, five oil producers were completed, three in Red Earth (50% interest) and two in Utikuma (a 33-1/3% and a 20% interest). From January 1 to February 20, 1974 an additional three successful oilwells have been drilled and a further five to seven wells are planned for the balance of 1974. The prolific nature of these Granite Wash wells and increased market demand should result in substantially higher daily production in 1974.

As covered in detail on Page 8, the Company drilled seven test wells on its 100%-owned **Surmont** property which is approximately 35 miles south of the new town site of Fort McMurray.

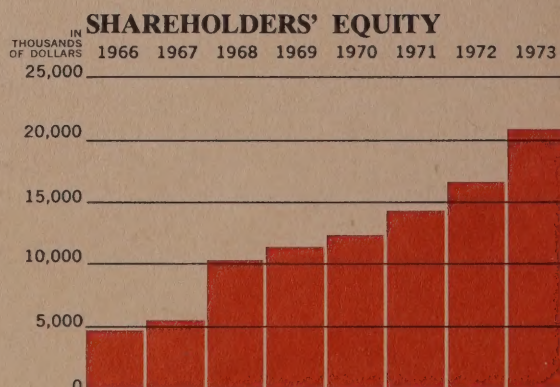
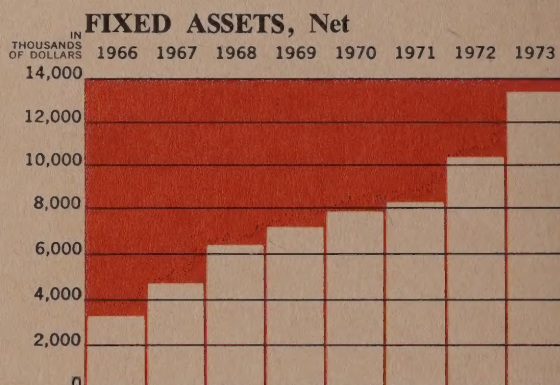
Two test wells were drilled on the Company's 20%-owned properties in the **Claresholm** area of southern Alberta. One was completed as an oilwell and the other abandoned. Subsequently, the Company acquired additional acreage on trend in this area.

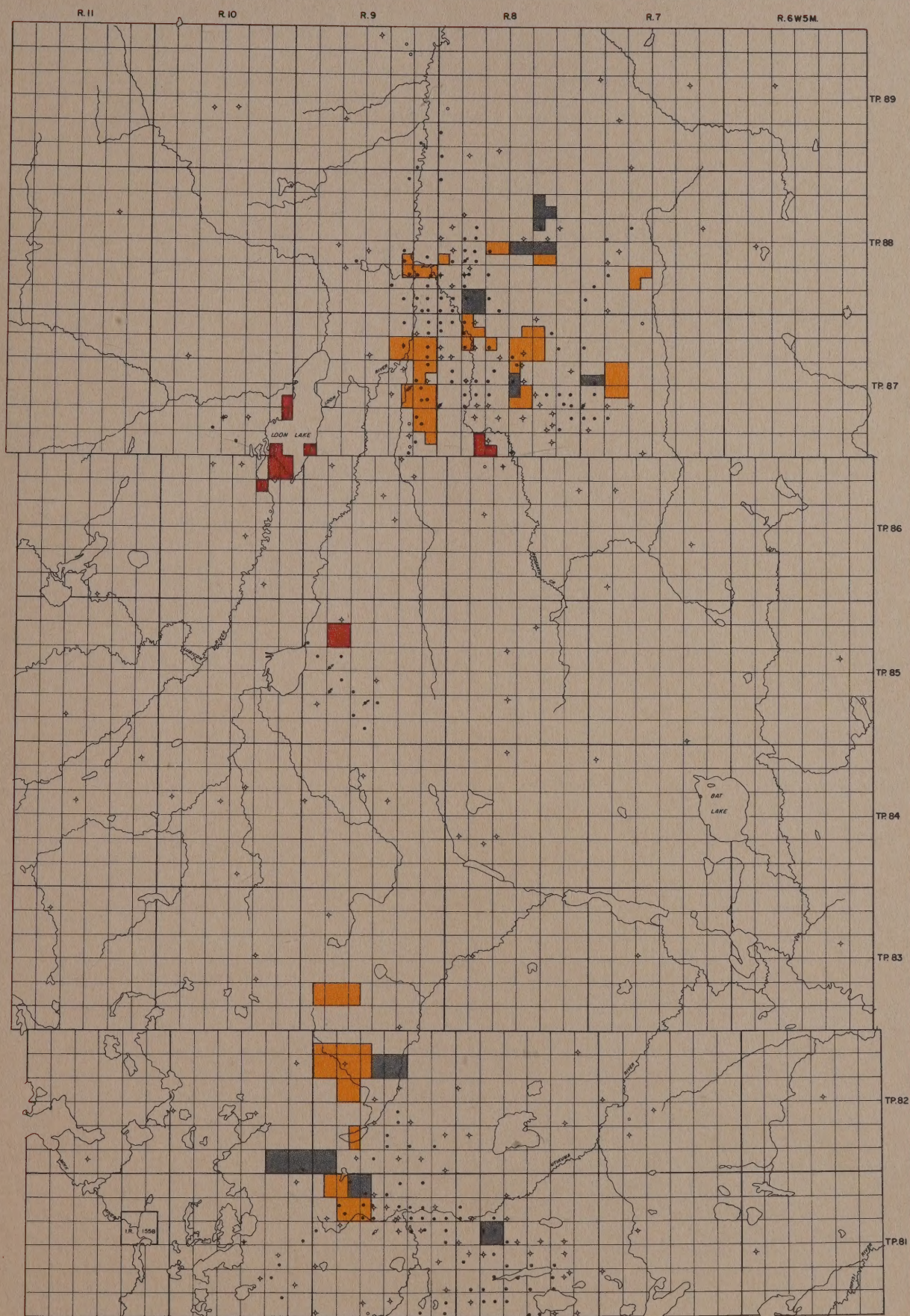
A dry hole was drilled in each of the **Pembina River** (Peco) and **Loon Lake** areas of Alberta and in the **Clarke Lake (East)** area of British Columbia. Although the test wells were disappointing, the Company retained acreage in the latter two areas. Numac's interest in these properties varies from 15% to 50%.

Because of the probability of increased wellhead prices and greater demand for oil and gas, Numac has sharply stepped up its land acquisition program in Alberta and British Columbia. This program became active in 1973 and will continue throughout 1974. As a direct result, and because of the Company's healthy financial status, substantially increased drilling activities will be carried out on a number of these properties during the forthcoming year.

The areas in which new acquisitions materialized in the latter part of 1973 include **Claresholm** (potential oil and gas), **Dixonville** (in the gas prone Clear Hills country), **Wabiskaw** (potential oil sands and gas), **Fox Creek** (potential gas and condensates), **Sturgeon Lake South**, **Utikuma N.W.**, and **Redfish** (potential oil), all in Alberta. In British Columbia, properties were purchased in **Fireweed** (Aitken Creek), **Gleam**, **Alteres** and **Liard**, all highly prospective gas areas.

As a result of the above acquisitions, Numac's land holdings were increased to 1,640,485 gross acres (534,054 net acres) at year end.





LEGEND

- NUMAC 100%
- NUMAC 50%
- NUMAC 15 TO 49%

RED EARTH - UTIKUMA AREA



ATHABASCA OIL SANDS — ALBERTA

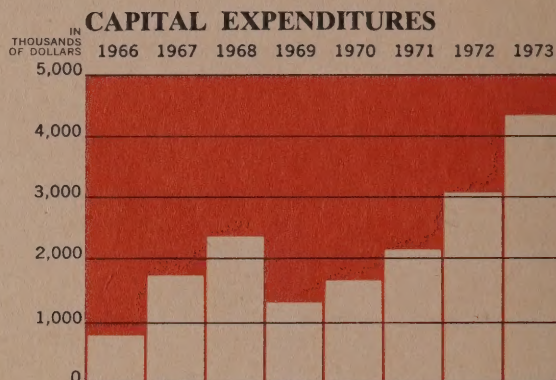
Numac has a 100% interest in the 117,120 acre Surmont property in northeastern Alberta, approximately 35 miles south of Fort McMurray.

During 1973 the Company drilled seven test wells on the property, each encountering a thick oil sand section of between 43 and 69 feet. Also, a number of the tests encountered natural gas which may be marketed or possibly be used in the development of an in-situ recovery process on the property.

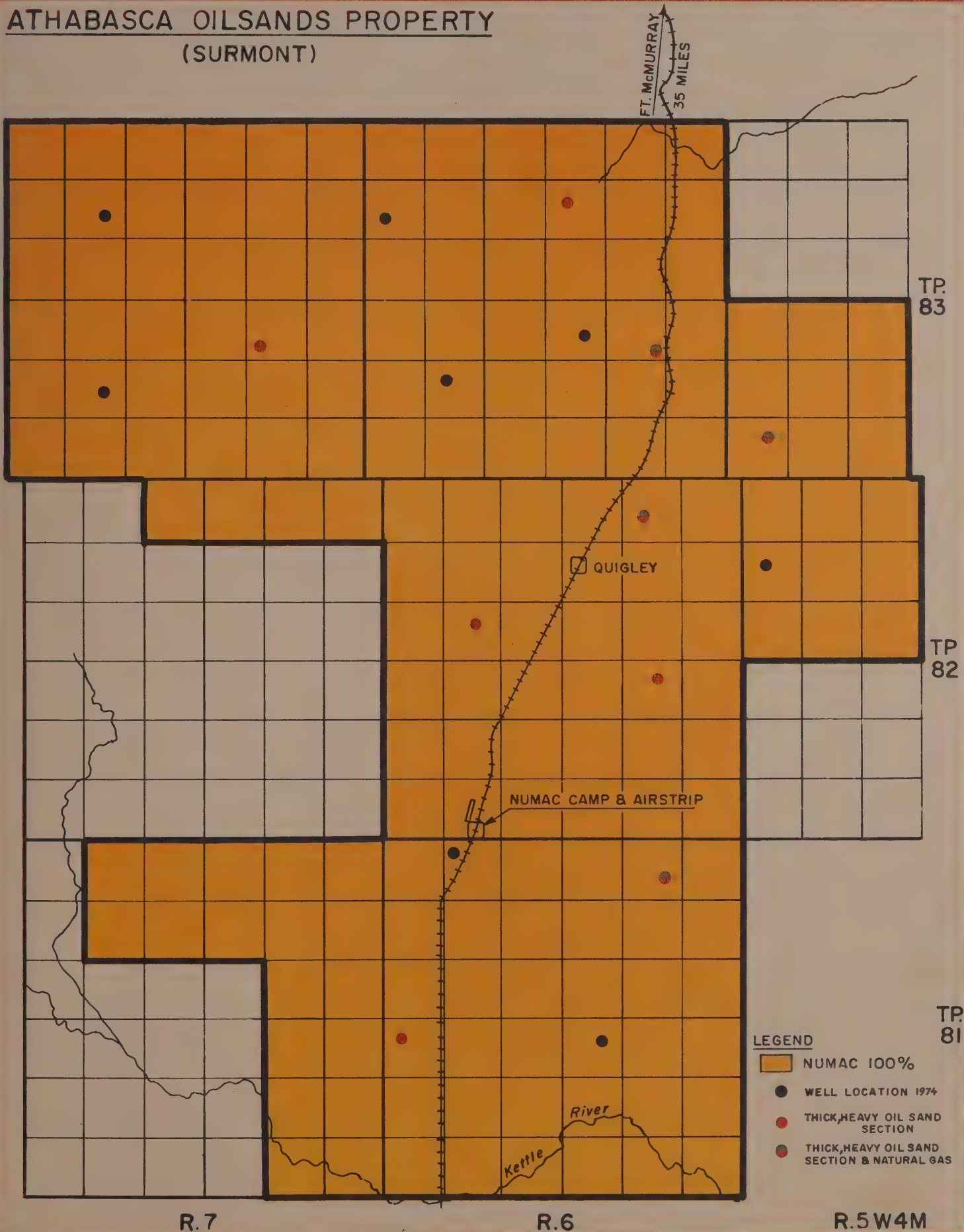
Approximately 7.5 billion barrels of Bituminous oil in place is located about 800 to 1000 feet beneath the surface which is considered to be an ideal depth for recovery of oil by fireflood or steam heat injection recovery process. The main Northern Alberta Railway line from Edmonton to Fort McMurray passes through the property, hence providing an economical transportation facility for delivery of equipment and supplies.

In January, 1974 the Government of the Province of Alberta created the Alberta Oil Sands Technology and Research Authority and committed \$100 million over the next five years to the Authority. These funds will be used to achieve a major technological breakthrough to recover oil by the in-situ method. The Government's financial contribution is intended as a supplement to industry efforts. The Alberta Government believes the Alberta oil sands presently have about a five year head start over oil shale development in the United States. It is believed the Government funds will make it possible for independent companies, such as Numac, to make a more meaningful contribution to research within the oil sands.

During February and March of 1974, the Company intends to drill and core a further eight to ten wells on the property. It is believed these wells will assist in evaluating certain untested areas as well as establish additional natural gas reserves. Upon completion of this winter program, plans for future evaluation and recovery will be reviewed.



ATHABASCA OILSANDS PROPERTY (SURMONT)



MACKENZIE DELTA, N.W.T.

EXPLORATION SUCCESS

In January, 1974 Imperial Oil Limited announced that preliminary results relative to its exploratory well, Imperial Adgo F-28, located on an artificial island offsetting a Numac permit, indicated a significant thickness of gas bearing sands. After testing the well, they further announced that oil and/or gas flowed to surface from three separate zones. This discovery located in the shallow waters of the Beaufort Sea is encouraging to Numac as Sun Oil will commence drilling a well on each of two Numac permits in 1974 (see map — drilling on Blocks C and D).

Other significant discoveries in the Mackenzie Delta to date are:

GAS

The Taglu Field	— Imperial Oil
Niglintgak K-26	— Shell Oil
Parsons Lake	— Gulf-Mobil
Ya-Ya P-53	— Gulf-Mobil
Malik L-38	— Imperial Oil
Reindeer F-36	— Gulf-Imperial-Shell

OIL

Ivik N-17	— Imperial Oil
Mayogiak J-17	— Imperial Oil
Atkinson H-25	— Imperial Oil

MACKENZIE VALLEY NATURAL GAS PIPELINE

In March, 1974 Canadian Arctic Gas Study Limited will make application to the Canadian and United States Governments to construct a natural gas pipeline at a cost of in excess of \$5 billion from the Mackenzie Delta and Prudhoe Bay to southern markets. Numac is one of the twenty-seven firms participating in the study. In December, 1973 the Prime Minister of Canada supported the Mackenzie Valley Natural Gas Pipeline when he indicated he would co-operate with the Government of the United States in assuring the United States that Prudhoe Bay gas would be allowed to be transported through Canada without tax or tariff charged by any government in Canada.

Also, in January, 1974 at the Canadian Conference on Energy, the Premiers of the Provinces of Alberta and Ontario gave their support to the transport of this northern natural gas to southern markets.

BOW VALLEY FARMOUT TO SUN OIL

On December 19, 1973 Bow Valley Industries Ltd. and Arctic Coast Petroleum Ltd. farmed out Mackenzie Delta Permits W-943 to W-950 (see map — Blocks A to E) inclusive, totalling approximately 270,000 acres, to Sunoco E & P Limited, a Calgary based subsidiary of Sun Oil Company. This farmout required the approval of Numac who holds a 20% net carried interest in the properties.

Under the farmout arrangement, Sun reimbursed Bow Valley and Arctic Coast for their cost of seismic and other technical work. Sun may earn a 45% working interest in a portion of the permits by conducting approximately 300 miles of seismic and drilling three exploratory wells, two of which are to commence drilling prior to December 31, 1974 and the third prior to December 31, 1975. Sun would have to drill a minimum of twelve wells, at a rate of not less than two wells a year, in order for Sun to earn an undivided 45% working interest in all the Delta permits.

Although the farmors, Bow Valley and Arctic Coast, will be giving up 45% of their respective working interest in those properties earned by Sun, Numac completely retained all of the benefits under its 20% net carried interest. Besides maintaining the 20% net carried interest intact, Numac will receive the following additional benefits:

(a) While Sun holds an interest in the properties or until such a year in which production proceeds to the farmors exceeds \$1,000,000, Numac will receive \$200,000 per year commencing January 2, 1975 for a maximum of eight years.

(b) If Arctic Coast elects to have Sun provide the financing for its 27.5% share of the development costs, Arctic Coast will pay Numac 20% of its remaining share of production after deducting the portion Sun is entitled to in recovering the costs advanced by it.

(c) If Bow Valley elects to finance its 27.5% share of development costs through Sun or any other party, Bow Valley will pay Numac 20% of the net proceeds received by Bow Valley which is not dedicated to the repayment of such loan.

(d) Numac will receive 20% of any payment to Bow Valley by way of prepayment or advance from any oil or gas purchasing company.

Numac will repay, without interest, the monies received by way of (a), (b) and (c) out of one quarter of the proceeds from its 20% net carried interest when it takes effect.

CURRENT EXPLORATORY ACTIVITY

Sunoco E & P Limited is currently carrying out the 300 mile seismic program and building a man-made island at UNARK E-24 location (Block D) in order to commence drilling in the summer of 1974. The other Sunoco test well to be drilled in 1974 will be located southeast of Pelly Island (Block C). Imperial Oil has also commenced construction of a third artificial drilling island immediately south of Pullen Island. Drilling should commence from this location in the summer of 1974. Currently drilling is Chevron SOBC Upluk M-38 which is in close proximity to our Company holdings.

FOREIGN EXPLORATION

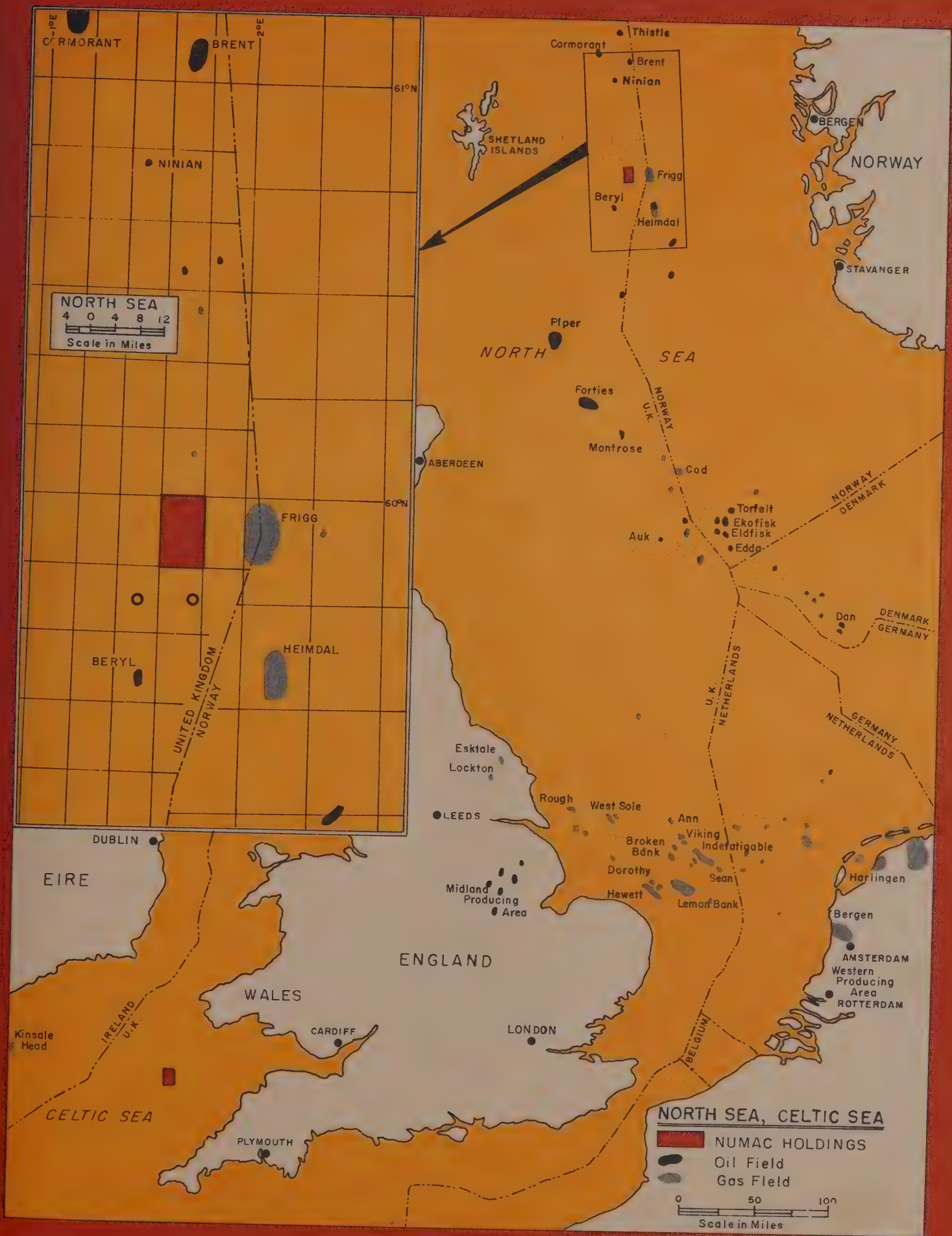
The United Kingdom offshore has become the most significant oil and gas exploration area other than North America and the Middle East. Approximately twenty indicated major oil fields and numerous gas fields have been discovered in the **North Sea** and exploration appears to be only in its infancy. It is not uncommon for estimates of from 500 million to 2 billion barrels recoverable reserves to be allotted to oil fields recently discovered.

Numac's Block 9/4 (11-1/4% interest) is in the promising North Sea Tertiary basin and appears to be favorably located in relation to a number of recent major discoveries. During 1973 the BP/Iranian Oil consortium announced it had suspended drilling of a deep test well on its Block 3/29, which is located immediately north of Block 9/4, after penetrating an extremely high pressure gas zone and further evaluation of this feature will be undertaken in the summer of 1974. It is reported the Total Group is planning a test well during the 1974 summer season on its Block 9/9, located immediately south of Block 9/4 and it is probable a test well will be drilled on a block diagonally adjoining Block 9/4.

With the combination of further evaluation of the seismic data on Block 9/4, plus the drilling results by other companies in 1974, the Company anticipates a test well may be drilled on Block 9/4 in 1975.

Interpretation of detailed seismic on Block 103/27 in the **Celtic Sea**, in which Numac holds an 8-1/6% interest, has been completed. The existence of a significant geological structure is indicated on the block and evaluation of additional information is now being arranged. Several locations are being reported for the Celtic Sea during 1974, some of which may offset Block 103/27. Following evaluation of the above-mentioned information, plus the results from the increased 1974 drilling activity, it is probable the Block 103/27 consortium will be in a position to select a drilling target.

Numac is also involved in applications being made for offshore concessions in other foreign areas. The success of some should be known by early summer 1974.



MINING EXPLORATION

Numac's mining exploration activities during 1973 were primarily concentrated in the **Northwest Territories** with one program extending into the **Yukon Territory**.

The Company holds a 10% participating interest in 672 mineral claims (34,650 acres) in the "**Selwyn Project**" with Precambrian Shield Resources Limited, Atlas Explorations Limited and Dynasty Explorations Limited. These properties, straddling the Yukon-Northwest Territories boundary, are located near Summit Lake adjacent to and in the close vicinity of properties held by Placer Development Ltd. on which a lead-zinc discovery was made in 1972. A regional exploration program was carried out during the past summer on the Selwyn properties and the exploration program will be increased during 1974.

Late in 1973 Numac completed arrangements with Precambrian Shield to actively explore two promising gold properties during the first half of 1974. The first program involving surface diamond drilling will be carried out on the "**Nose Group**" 35 miles north of Yellowknife. Numac and other participants are committed to spend \$75,000 to earn a 50% interest in 40 mineral claims, in which Numac's net interest will be 25%. Following the **Nose Group** program, the Company will participate with Precambrian Shield in an underground test by means of a decline drift on properties 43 miles northwest of Yellowknife known as the "**WT Group**" covering 27 mineral claims. The Company also has a 25% interest in this property which has a proposed exploration budget for 1974 in excess of \$160,000.

In **Northern Saskatchewan**, Numac holds a 25% to 50% interest in four mineral claim blocks totalling 7,336 acres and a 12½% interest in a 2,460 acre block, all in the **Carswell Area**. Some uranium shows have resulted from exploration programs on these properties and interest has been intensified by uranium discoveries in the close vicinity by Mokta (Canada) Ltd. It has been reported Mokta's discoveries are regarded as commercial. Numac is considering a further work program for the 1974 summer season.

In the **Wollaston Lake** area, near the Rabbit Lake uranium mine currently being developed by Gulf Minerals Ltd., the Company and associates have selected a mineral lease totalling 1,440 acres and staked two claim blocks totalling approximately 1,960 acres on each end of the lease. These holdings cover the main area of interest delineated by the exploration program carried out during prior exploration seasons. Numac's interest in the properties is 25% and further exploratory work is planned for 1974.

The Company's mining activities in **British Columbia** have been reduced to practically zero because of the uncertainties in that Province since the assumption of power by the Barrett N.D.P. Government. Numac still holds its 24.6% interest in the delineated bituminous coal prospect in the **Princeton-Merritt Area** and 20% interest in the Copper Belt Syndicate, all of which is operated by Bethlehem Copper Corporation Ltd.

OTHER INVESTMENTS

CANADIAN ARCTIC GAS STUDY GROUP

In 1973 Numac became a participant in the Canadian Arctic Gas Study Group. This group is carrying out the economic, engineering, social, environment and other studies relative to the preparation of a formal application to the Governments of Canada and the United States for the construction of a natural gas pipeline down the Mackenzie Valley from the Mackenzie Delta and Prudhoe Bay. The Group plans to file the applications in the spring of 1974, commence construction in the fall of 1976, and have natural gas flowing from the Mackenzie Delta in the summer of 1978. Due to Numac's holdings in the Mackenzie Delta, the early construction of this line could have a significant effect on the Company's growth and future operations in Canada.

OILFIELD CONSTRUCTION

The Company's oilfield construction division, which is active in Alberta and the Northwest Territories, continues to play a significant role in contributing to the overall net income and cash flow. The 1973 net income from this division decreased slightly from 1972 due to operating cost increases and the indirect effect of a temporary reduction in exploration activity by many oil companies waiting for government policy on pricing and royalties.

REAL ESTATE VENTURES

With the planned massive development of the Mackenzie Delta and the Athabasca Oil Sands during the next five years, the Company intends to participate in certain real estate ventures which will supplement these developments and are compatible with the Company's involvement in resource development.

The Petroleum Plaza office building complex in Edmonton, in which Numac effectively owns a 60% interest, will be completed in May, 1974 and the two interconnecting office towers have leasing commitments for 100% of the space. The financial statements of this operation will be consolidated in 1974 which will have a favorable effect on the cash flow and net income in the second half of 1974.

TEN YEAR STATISTICAL SUMMARY

	1973	1972	1971
Gross Income, net after royalties	\$ 4,582,396	4,050,644	3,473,612
Operating Expense	\$ 909,888	772,766	970,585
General and Administrative	\$ 282,280	254,357	233,974
Net Cash Flow from Operations	\$ 3,361,734	3,008,755	2,213,761
— per share	\$.79	.72	.53
Long-term Debt	\$ 375,000	—	60,000
Depletion and Depreciation	\$ 1,040,320	811,467	711,930
Net Income, before Extraordinary Items	\$ 2,341,240	2,258,988	1,501,831
— per share	\$.55	.54	.36
Net Income	\$ 2,341,240	2,306,057	2,196,484
— per share	\$.55	.55	.53
Fixed Assets, net	\$13,319,561	10,035,554	8,199,844
Capital Expenditures	\$ 4,343,675	3,078,816	2,160,517
Shareholders' Equity	\$20,801,294	16,880,964	14,574,907
Working Capital	\$ 5,513,944	6,209,630	5,899,236
Common Shares Outstanding	4,325,566	4,181,066	4,181,066
Land Holdings			
Gross Acres	1,640,485	1,579,474	1,187,768
Net Acres	534,054	509,586	281,161

1970	1969	1968	1967	1966	1965	1964
2,980,420	2,421,679	1,386,325	653,135	485,741	353,488	281,352
827,147	932,427	385,789	93,146	57,254	34,611	38,221
184,333	158,404	112,670	82,876	60,946	46,928	49,837
1,869,333	1,220,286	805,510	432,954	340,074	288,200	190,476
.45	.29	.23	.14	.11	.09	.06
120,000	180,000	240,000	—	—	—	—
685,022	495,246	301,213	192,744	196,462	131,068	90,794
1,184,311	725,040	504,297	240,210	143,612	157,132	99,682
.28	.17	.14	.07	.05	.05	.03
1,184,311	803,800	474,781	240,210	143,612	157,132	99,682
.28	.19	.13	.07	.05	.05	.03
7,960,880	7,163,968	6,403,755	4,767,132	3,388,668	2,764,274	2,276,558
1,619,712	1,367,452	2,315,234	1,622,144	715,995	651,100	972,072
12,378,423	11,074,311	10,275,499	5,217,706	4,945,225	4,801,613	4,644,481
4,225,526	3,816,730	3,640,098	147,996	1,241,553	1,778,017	2,133,439
4,181,066	4,179,566	4,177,566	3,209,925	3,200,000	3,200,000	3,200,000
1,172,877	1,427,533	2,514,639	1,597,111	1,365,155	921,100	490,944
354,876	422,655	1,160,115	1,121,752	1,052,521	735,470	327,125

NOTE: The above Statistical Summary includes the operations of Numac Oil & Gas Ltd. and subsidiary companies from date of acquisition. It also reflects retroactive adjustments due to the adoption of the full-cost method of accounting effective January 1st, 1968.

FINANCIAL AND ACCOUNTING REVIEW

EARNINGS AND CASH FLOW

Gross revenue increased to \$4,582,396 from \$4,050,644 in 1972 and net income before extraordinary items was \$2,341,240 up from \$2,258,988 in 1972. Net income did not increase to the extent anticipated due to an unusual and possibly non-recurring operating expense increase, heavy rainfall in the Red Earth-Utikuma area, mining costs written off during the fourth quarter and a late freeze-up affecting the construction division. The Company anticipates a favourable improvement in operating results in 1974.

Net cash flow from operations was \$3,361,734 (\$0.79 per share) compared with \$3,008,755 (\$0.72 per share in 1972).

CAPITAL EXPENDITURES

Expenditures on exploration, development, research and other capital items totalled \$4,343,675 in 1973 as compared to \$3,078,816 in 1972.

WORKING CAPITAL

The Company maintained a healthy working capital of \$5,513,944 as at December 31, 1973.

INVESTMENTS AND MARKETABLE SECURITIES

The Company's investment in the shares of certain mining companies has increased in value during 1973. Also, the investment in Nu-Alta Developments Ltd., a 60%-owned real estate development company, has had a significant increase in value during the year which has not been reflected in the accounts as the investment has no market value.

Certain marketable securities, which as at December 31, 1973 had a market value below cost, have subsequently appreciated in value. Overall, the Company's investments have appreciated substantially over cost, most of which has not been reflected in the financial statements.

INCOME TAXES AND OTHER PAYMENTS TO GOVERNMENTS

As a result of significant increases in capital expenditures for purposes of generating future income, Numac had no income taxes payable in 1973. Although no direct income taxes were payable, the Company did pay in excess of \$900,000 to various levels of government in Canada by way of royalties, land rentals and lease acquisition costs. The accumulated tax credit as at December 31, 1973 of \$2,600,000 may be applied against future taxable income.

CONSOLIDATION PRACTICE

The consolidated financial statements include the accounts of the Company and all wholly-owned subsidiary companies, including Numac Oil & Gas (U.K.) Limited, Numac Mining Ltd. and Numac Oil & Gas, Inc. Excluded from the consolidated accounts and accounted for on the equity method is the Company's ownership of 60% of the outstanding shares in Nu-Alta Developments Ltd. Numac considers its interest in this real estate development company as an investment which is not an integral part of the Company's operation but rather an investment of working capital not currently required for oil and gas exploration. Since Nu-Alta's only activity during the year was the development and construction of the interconnected Petroleum Plaza complex in the City of Edmonton, which will not be completed until May, 1974, there was no income or expense within that company.

NUMAC OIL & GAS LTD.
AND SUBSIDIARY COMPANIES
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 1973

Consolidated Statement of Income			1973	1972
INCOME				
Gross operating income			\$ 4,028,821	\$ 3,566,090
Investment income			498,409	431,142
Supervision and sundry			55,166	53,412
			4,582,396	4,050,644
EXPENSES				
Operating expense			909,888	772,766
General and administrative expense			282,280	254,357
Interest expense			28,494	14,766
			1,220,662	1,041,889
NET FUNDS FROM OPERATIONS			3,361,734	3,008,755
Provision for depletion, depreciation and amortization			1,040,320	811,467
NET INCOME BEFORE THE UNDERNOTED			2,321,414	2,197,288
Gain on sale of equipment			19,826	61,700
NET INCOME BEFORE EXTRAORDINARY INCOME			2,341,240	2,258,988
Extraordinary income			—	47,069
NET INCOME (Note 3)			\$ 2,341,240	\$ 2,306,057

Consolidated Statement of Retained Earnings			1973	1972
RETAINED EARNINGS, beginning of year			\$ 7,583,067	\$ 5,277,010
Add: Net income			2,341,240	2,306,057
RETAINED EARNINGS, end of year			\$ 9,924,307	\$ 7,583,067

Earnings Per Share (Based on Weighted Average of Outstanding Shares)			1973	1972
NET INCOME BEFORE EXTRAORDINARY INCOME			55¢	54¢
Extraordinary Income			—	1
NET INCOME			55¢	55¢

The accompanying notes are an integral part of the financial statements.

NUMAC OIL & GAS LTD.
AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED
AS AT DECEMBER 31, 1973

ASSETS	1973	1972
CURRENT ASSETS		
Cash	\$ —	\$ 89,869
Marketable securities, at cost (Market value \$5,863,880; 1972, \$5,515,742)	6,045,452	5,467,273
Accounts receivable	968,644	1,033,797
Prepays and deposits	61,591	57,644
	7,075,687	6,648,583
INVESTMENTS AND LONG TERM RECEIVABLES (Note 2)	2,342,789	635,780
FIXED ASSETS, at cost		
Land, leases, research, development and well costs	13,615,008	9,488,406
Production and other equipment	3,838,569	3,706,293
	17,453,577	13,194,699
Less: Accumulated depletion, depreciation and amortization	4,134,016	3,159,145
	13,319,561	10,035,554
	\$22,738,037	\$17,319,917

ON BEHALF OF THE BOARD

W. S. Mc Gregor Director
A. H. MacLean Director

The accompanying notes are an integral part of the financial statements.

LIABILITIES	1973	1972
CURRENT LIABILITIES		
Bank loan — secured	\$ 795,000	\$ —
Accounts payable and accruals	766,743	378,953
Notes payable	—	60,000
	1,561,743	438,953
LONG TERM DEBT (Note 4)	375,000	—
	1,936,743	438,953
CONTINGENT (Note 5)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)		
Authorized		
5,000,000 shares without nominal or par value		
Issued		
4,325,566 shares	10,876,987	9,297,897
(4,181,066 shares — 1972)		
RETAINED EARNINGS	9,924,307	7,583,067
	20,801,294	16,880,964
	\$22,738,037	\$17,319,917

NUMAC OIL & GAS LTD.
AND SUBSIDIARY COMPANIES
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 1973

Consolidated Statement of Changes in Financial Position			1973	1972
SOURCE OF FUNDS				
Income			\$ 4,582,396	\$ 4,050,644
Less: Operating, general and administrative and interest expenses			1,220,662	1,041,889
Net funds from operations			3,361,734	3,008,755
Proceeds of long term debt			375,000	—
Issue of share capital			1,579,090	—
Sale of property and equipment			39,174	611,011
Sale of investments			—	12,563
			5,354,998	3,632,329
APPLICATION OF FUNDS				
Fixed assets			4,343,675	3,078,816
Repayment of long term debt			—	60,000
Increase in investments and long term receivables			1,707,009	189,063
			6,050,684	3,327,879
INCREASE (DECREASE) IN WORKING CAPITAL			(695,686)	304,450
Working capital, beginning of year			6,209,630	5,905,180
WORKING CAPITAL, end of year			\$ 5,513,944	\$ 6,209,630

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1973

NOTE 1—ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries except those of a real estate development company referred to below.

Full-Cost Method — Oil and Gas

The Companies follow the full-cost method of accounting for oil and gas operations whereby all costs relative to the exploration for and development of oil and natural gas reserves are capitalized. Such costs include those related to the acquisition of petroleum and natural gas rights, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and overhead directly associated with exploration and development. These costs are depleted on the composite unit-of-production method on estimated proven developed reserves of oil and natural gas.

Mining Costs

Acquisition and exploration costs of mining properties are treated on a project basis wherein costs are not charged to expense unless a project is abandoned. Revenue from farm-out arrangements of mining properties is not taken into income unless the proceeds exceed the total project cost.

Canadian Arctic Gas Study Group

Costs incurred in connection with the Company's participation in the Canadian Arctic Gas Study Group have been capitalized. The eventual disposition of these costs will be determined pending the outcome of the study.

Depreciation

Production and other equipment is depreciated on the straight line method at rates designed to amortize the cost of the assets over their estimated useful lives.

Real Estate Development Company

The accounts of Nu-Alta Developments Ltd., a 60% owned real estate development company, are accounted for in the accompanying statements on the equity basis. Since incorporation, this company has been in the development and construction stage of an interconnected office tower complex located in the City of Edmonton and has had no statement of income or retained earnings.

The accounts of this company have not been consolidated because the investment is not considered to be an integral part of the parent Company's business due to the lack of relationship of the business of the real estate development company to the principal business of the parent company, and because the project is still in the development and construction stage.

A condensed balance sheet of Nu-Alta Developments Ltd. as at December 31, 1973 is presented below:

ASSETS

Cash and receivables	\$ 58,715
Project under construction	9,139,575
	<u>\$ 9,198,290</u>

LIABILITIES AND EQUITY

Accounts payable	\$ 817,990
Term bank loan maturing in 1982 secured on the project	6,424,300
Secured demand debentures	1,955,000
Shareholders' Equity	1,000
	<u>\$ 9,198,290</u>

NOTE 2—INVESTMENTS AND LONG TERM RECEIVABLES

	1973	1972
Real estate development company—equity basis (no quoted market value) (Note 1)	\$ 1,017,280	\$ 417,837
Other corporate shares—at cost (no quoted market value)	7,541	143,541
Long term receivables—at cost	1,317,968	74,402
	<u>\$ 2,342,789</u>	<u>\$ 635,780</u>

NOTE 3—INCOME TAXES

For income tax purposes, the Companies are entitled to claim leases, research, development, well costs and capital cost allowance (depreciation) in amounts which may exceed the related depletion, depreciation and amortization provisions reflected in their accounts. As a result of claiming this excess, no income taxes are payable for the year. Expenditures remain to be carried forward and applied against future taxable income in the amount of \$2,600,000 (leases, development, and well costs \$1,320,000 and undepreciated capital cost \$1,280,000).

The Companies do not believe that it is appropriate to provide for income taxes deferred as a result of claims of this excess. While this view conforms with general practice in the oil and gas industry, and is accepted by accounting authorities outside of Canada, it differs from the tax allocation basis of accounting recommended by the Accounting Research Committee of the Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of \$770,000 (\$705,000 in 1972) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$2,940,000 at December 31, 1973.

The Canadian Securities Commissions have requested the oil and gas industry to undertake a study to determine if tax allocation as recommended by the Canadian Institute of Chartered Accountants is appropriate to the industry, and if not, to establish an alternative which has authoritative support. If industry is unable to establish an alternative the Companies may be required to adopt the income tax allocation method in 1974.

NOTE 4—LONG TERM DEBT

The long term debt is secured by a certain property and is repayable at \$75,000 per year plus interest at 8% commencing in 1975.

NOTE 5—CONTINGENT

The Company has guaranteed a portion of a bank loan to the real estate development company, referred to in Note 1, for an amount not to exceed \$5,400,000.

NOTE 6—SHARE CAPITAL

Options granted to key employees in 1968 and 1969 to purchase 64,500 shares were exercised during the year for an aggregate consideration of \$334,940. Upon cancellation of an option to purchase 1500 shares, no further options remain outstanding as at December 31, 1973.

The Company has established a Stock Purchase Plan whereby 90,000 shares have been reserved for purchase and immediate resale by a Trustee to key employees at the average sale price of the Company's shares on the day immediately preceding the transaction. During the year, 80,000 shares were sold to the Trustee and resold to employees under the plan at prices ranging from \$15.00 to \$18.38 per share. The total purchase price of the shares, \$1,244,150, was advanced by the Company to the Trustee and is included in investments and long term receivables in the accompanying balance sheet. The advance to the Trustee and the concurrent payment by the Trustee to the Company for the shares result in no net effect on the Company's working capital.

NOTE 7—REMUNERATION OF SENIOR OFFICERS AND DIRECTORS

In accordance with the provisions of the Companies Act (Alberta), it is reported that the remuneration paid to the senior officers of the Companies amounted to \$208,705 (1972—\$190,582) and directors' fees amounted to \$3,750 (1972—\$2,794).

AUDITORS' REPORT

To the Shareholders of
Numac Oil & Gas Ltd.

We have examined the consolidated balance sheet of Numac Oil & Gas Ltd. and subsidiary companies as at December 31, 1973 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EDMONTON, Alberta
February 15, 1974

WINSPEAR HIGGINS STEVENSON & CO.
Chartered Accountants

NUMAC OIL & GAS LTD.